



WTZA-TV Associates

P.O. Box 1609 • 721 Broadway • Kingston, New York 12401 • 914-339-6200

November 12, 1991

RECEIVED

NOV 21 1991

Federal Communications Commission
Office of the Secretary

Ms. Donna Searcy
Secretary
FEDERAL COMMUNICATION COMMISSION
1919 M Street, N.W. OMD Rm 222
Washington, D.C. 20554

**RE: MM Docket No. 91-221 (Notice of Inquiry in the
Matter of Review of the Policy Implications of the
Changing Video Marketplace)**

Dear Ms. Searcy:

WTZA-TV Associates, licensee of UHF Television Station WTZA, Channel 62, Kingston, New York, hereby submits its comments in response to the Commission's Notice of Inquiry in MM Docket No. 91-221, FCC 91-215, released August 7, 1991, seeking the views of interested parties on the policy implications of the changing video marketplace. We believe that WTZA's history makes a cogent case study on the dramatic changes in the nature of the marketplace in recent years, the role of the independent television broadcaster in that marketplace, and the need for regulatory changes to permit television broadcasters to continue to compete effectively.

WTZA commenced operations in 1985 as a "nicheplayer", providing a home signal for the 365,000 homes in the Hudson Valley, a 100-mile stretch of real estate lying between two major television markets, Albany and New York. Our feasibility studies had revealed an \$80 million advertising universe there, good growth prospects and superior demographics. So WTZA designed a general-interest program schedule with strong emphasis on local news, built the plant, powered up the signal and set our operating breakeven target at five years.

Success with viewers came early. Weekly "cume" audience figures rose from 7% of available homes in 1986, our first full year of operation, to 21% in 1987, and 39% in 1989. Advertisers followed these audiences, revenues rose nicely each year, and operating breakeven was achieved on schedule.

From the start, we realized that cable would be an important part of WTA's success. The same terrain which allowed the station to prosper in the shadow of powerhouse over-the-air signals from New York and Albany would have dramatically reduced our audiences if cable had not been both successful and pervasive. Consequently, WTZA made a concerted effort to sell itself to local cable operators and, after a couple of years, managed to secure nearly 100% area cable carriage, equivalent to about 255,000 homes. To this point, WTA's history represented a "win-win" situation for everyone.

By 1991, however, the competitive environment had changed dramatically for WTZA. Despite continued audience growth (now reaching a 49% weekly cume in some parts of the viewing area), dozens of awards for excellence (including seven in 1990 alone from the New York State Broadcasters Association), and an extraordinary local news commitment for a station WTZA's size (four full half-hour newscasts daily, plus hourly newsbriefs), we find ourselves wondering if WTZA will remain a meaningful business. The following are the principal factors which have altered our business landscape.

1.) Cable is now our competitor for local and sub-regional advertising dollars. We estimate cable's share of the Hudson Valley advertising market last year at about \$2,500,000. Because cable sells a smaller local footprint than WTZA does, many of these dollars came from local merchants who would not benefit from using WTZA's larger regional signal. Nonetheless, we put our own lost revenues to this new competitor at about \$500,000.

2.) This year local cable operators have organized two additional cooperative sales groups, one to serve the entire Hudson Valley region, and a second to compete for New York City spot dollars. Large sums are being invested in the New York City operation, which will include satellite delivery of commercial spots, with a goal of 10% of that billion dollar market. While the main targets of this effort will be the New York network affiliates and major independents, WTZA will also feel the pain. Half of our revenues currently come from New York spot budgets, and to prosper, WTZA needs that percentage to rise to at least two-thirds. Will our new cable competitor allow this? More likely they will reduce WTZA's percentage by 10%.

The new regional cable group will pose a graver threat than individual systems, selling directly to the regional advertisers who are WTZA's bread and butter. If the pie grows and they take the growth WTZA will lose most of the potential return on its investment. If the pie doesn't grow and cable takes any significant share of it, WTZA won't survive. Neither scenario is attractive.

Market competition is healthy, and WTZA believes in it. We have no patience with industries which produce inferior or outdated products, then whine for protection in a changing world. Broadcasting was a terrific business for years and now it is less so. Market studies twenty years ago showed that cable would have a major impact on traditional broadcasters.

What was predicted then has largely become fact. Cable is a giant come of age.

How can WTZA compete with its giant rival? Basically by adapting, by reinventing its business. We must seek new audiences and seek new ways to sell those audiences to advertisers. We must relinquish the giant's turf and stake out new turf. The trouble is, the giant's turf is huge and growing. Some examples:

CARRIAGE

Cable controls access to 70% of the television homes in WTZA's market. At present, cable systems can carry WTZA or not, as they wish. If they decide not to carry us, there is no practical alternative path into the homes they serve.

PROGRAMMING

Cable programmers have moved ahead of us in the program syndication pecking order, which means that WTZA's core programming (off net hours and half hours, and movies) is now frequently seen on cable's proprietary pay and ad-supported channels before it gets to over-the-air television. Obviously, this makes WTZA less attractive to the Hudson Valley audience.

Local cable operators also have entered the local news business, diluting our prime "niche" audience. There are two full newscasts up and running and three more on the way on cable systems in the Hudson Valley.

Often our local cable carrier is a major program producer via its corporate parent. With rated cable services in the Hudson Valley having proliferated from 9 to 19 in the past five years, and with local cable operators benefiting directly (pay revenue splits) or indirectly (advertising avails) from most of them, we wonder how long WTZA's place on the cable dial will remain secure. Already we are being bounced from one channel position to another as local operators change their channel lineups to more profitable configurations.

ADVERTISING

Cable's organizational structure now enables systems and groups of systems to sell advertising clients on a local, county, sub-regional, and regional basis. So far the impact has largely been to expand the television advertising market, but this is changing rapidly (see above).

Cable ad sales are subsidized by cable subscriber revenues, enabling cable rivals to beat WTZA on price whenever it serves their purpose. This is bad enough in good times, but it's a killer in bad times when the station already is flirting with red ink.

Where can WTZA go from here?

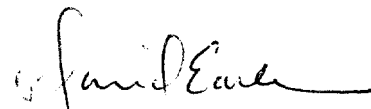
Frankly, we wonder whether WTZA will be around in another five years. At best, our business will not be as profitable or as large as we thought, and at worst, cable's aggressive search for additional revenues and audiences, coupled with its deep pockets to fund that search, plus carriage control, will crush us.

As we see it, WTZA's best chance to prosper in the Hudson Valley within the media business is to expand our niche. For instance, we could see profitable synergies in purchasing a local radio station with compatible programming and a similar audience. We could also see a profitable alliance with a TV station in one of our two neighboring major markets. We might also purchase a local newspaper and effect economies of scale in management and newsgathering (currently 30% of our operating budget). Nor would it be illogical to purchase a cable system or two and develop our own dual streams of revenue. Most if not all of these strategies, however, are currently foreclosed by FCC regulations.

Alternatively, WTZA Associates might move out of the Hudson Valley and become a group owner, attempting to achieve operational economies in that way. That strategy, however, does not address the potential growth and profitability of WTZA as a standalone business, or problems of a similar cast in whatever additional markets we target. If return on investment remains sub-par for WTZA, there would be no reason to keep it. Nor, we imagine, would there be reason for anyone else to acquire it.

The purpose of this letter was to comment on the changing nature of the video marketplace as it affects WTZA, and the impact of the Commission's current regulatory regime on the station. We strongly believe that WTZA's future depends on a change in these regulations, and in particular the current broadcast ownership regulations. The challenges of our marketplace are ruthlessly clear. So is the nature and power of our cable competitors. Give WTZA the opportunity to change and evolve our business, and we have a chance to succeed. Keep things as they are and our successful, award-winning, little broadcast venture will languish and die.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "David Earle", with a long, sweeping horizontal line extending to the right.

David Earle
Vice-President & General Manager